

## Message Text

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ORIGIN COME-00

INFO OCT-01 IO-13 ISO-00 CEA-01 CIAE-00 DODE-00 EB-07  
FRB-03 H-01 INR-07 INT-05 L-03 LAB-04 NSAE-00  
NSC-05 PA-01 EPG-02 AID-05 SS-15 STR-04 ITC-01  
TRSE-00 USIA-06 PRS-01 SP-02 OMB-01 FEA-01 AGR-05  
OPIC-03 OIC-02 AF-10 ARA-06 EA-07 EUR-12 NEA-10  
/144 R

DRAFTED BY COM/ BIEPR/OTP/RFRANCIS  
APPROVED BY STR/ WKELLY  
HBRATT/COM/BIEPR/OTP  
RWHITE/STATE/EB/OT/TA  
COUELETTE/TREASURY  
BWILSON/STR  
DCHENEY/EX-IM BANK  
BRENISON/LABOR

-----140327Z 122195 /70

P 131530Z MAY 77  
FM SECSTATE WASHDC  
TO USMISSION GENEVA PRIORITY

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E.O. 11652: N/A

TAGS:GATT, ETRD

SUBJECT:WORKING PARTY ON EXPORT INFLATION INSURANCE MAY 16

INFO: HELSINKI, LISBON, LONDON, MADRID, OTTAWA, PARIS,  
ROME, STOCKHOLM, TOKYO, EC BRUSSELS, OECD PARIS, MTN GENEVA

REF: A. U.S. POSITION PAPER-TPSC 76-56, B. GENEVA 2049,  
C. GENEVA 3027, D. STATE 052741, E. PARIS 13544, F. GENEVA  
3480

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1. FOLLOWING ARE INSTRUCTIONS FOR U.S. DEL TO SUBJECT WP.  
U.S. DEL SHOULD CONTINUE TO DRAW, AS APPROPRIATE, ON REF.  
A, WHICH CONTAINS BASIC U.S. POSITION.

2. WE ARE PLEASED WITH SUBSTANTIAL PROGRESS MADE AT MARCH  
14-15 MEETING IN EXPLORING OPERATION OF EXISTING EII

SCHEMES. U.S. GOALS AT MAY 16 MEETING ARE FOR WP TO COMPLETE ITS EXAMINATION OF THE OPERATION OF THESE PROGRAMS AND TO MAKE SUBSTANTIAL PROGRESS ON REVIEWING ISSUE OF THEIR GATT LEGALITY. WE WOULD LIKE TO HAVE A REPORT ON EII FROM THE WP ASAP. IF A FINAL REPORT IS NOT POSSIBLE AT THIS MEETING, U.S. DEL SHOULD IF APPROPRIATE PRESS FOR ADOPTION OF AN INTERIM REPORT.

3. WE CONTINUE TO FEEL THAT U.S. OBJECTIVE OF ENSURING THOROUGH EXAMINATION OF EII PROGRAMS BEST SERVED BY CONTINUING TO FOCUS WP ATTENTION ON THEM. OUR POSITION RE JAPAN EXPORT LOSS RESERVE PROGRAM IS THAT IF JAPANESE CONTINUE TO RESIST EC EFFORTS TO HAVE THIS ITEM PLACED ON AGENDA, U.S. WILL SUPPORT THEM. IF, HOWEVER, AS A RESULT OF BILATERAL TALKS WITH EC, JAPANESE SHIFT GEARS AND AGREE TO INCLUSION ON AGENDA, U.S. WOULD PLAY PASSIVE ROLE IN DISCUSSION AFTER EXPRESSING OUR CONTINUED RESERVATION REGARDING RELEVANCE OF THIS PROGRAM TO WP MANDATE. WE AWAIT REPORT ON JAPAN-EC DISCUSSIONS. (REF. C).

4. WE NOTE THAT EC, SUPPORTED BY FINLAND, HAS PROPOSED THAT EXCHANGE RATE INSURANCE BE ADDED TO AGENDA. AS STATED IN REF. D, WE DO NOT BELIEVE THAT THESE PROGRAMS ARE INTENDED TO "ATTENUATE OR COMPENSATE" EFFECTS OF COST INFLATION." WE AGREE WITH MISSION THAT A MORE COGENT RATIONALE THAN THAT PROVIDED IN L4491 IS REQUIRED. U.S. DEL SHOULD SHIFT BURDEN OF PROOF TO EC TO JUSTIFY INCLUSION AND MAY DRAW ON THE FOLLOWING: EXCHANGE RISK COVER SCHEMES GENERALLY PROTECT BENEFICIARY EXPORTERS FROM LIMITED OFFICIAL USE

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APPRECIATION OF THE HOME COUNTRY CURRENCY ALTHOUGH THE FRENCH SCHEME ALSO APPLIES TO IMPORTS DEEMED NECESSARY FOR EXPORTS. FOR EXAMPLE, AN EXPORTER WHOSE CONTRACT SPECIFIES ITALIAN LIRA OR POUNDS STERLING AS THE PAYMENT CURRENCY OBTAINS PROTECTION AGAINST APPRECIATION OF HIS CURRENCY AND A FRENCH IMPORTER OF AN ITEM WHICH IS IMPORTED FOR INCORPORATION INTO A SUBSEQUENT EXPORT OBTAINS PROTECTION FOR CONTRACTS DENOMINATED IN CURRENCIES OTHER THAN FRENCH FRANCS AGAINST DEPRECIATION OF THE FRANC. EXCHANGE RATES MOVE IN RESPONSE TO MANY VARIABLES IMPACTING ON THE CURRENT AND CAPITAL ACCOUNTS OF THE BOP, AND IT IS CLEARLY WRONG TO ARGUE THAT INFLATION IN THE EXPORTING COUNTRY WILL CAUSE ITS CURRENCY TO APPRECIATE. THUS IT IS WRONG TO DESCRIBE EXCHANGE INSURANCE SCHEMES AS MEASURES TO ATTENUATE OR MITIGATE THE EFFECTS OF COST INFLATION AND THESE SCHEMES THEREFORE FALL OUTSIDE THE TERMS OF REFERENCE OF THE WP. IN SUM, WE CONTINUE TO BELIEVE THAT EXCHANGE RATE INSURANCE CLEARLY FALLS OUTSIDE THE TERMS OF REFERENCE OF WP AND WOULD BE MORE APPROPRIATELY DEALT

WITH IN MTN NTM SUBGROUP ON SUBSIDIES AND COUNTERVAILING DUTIES.

5. IF WP CONSENSUS DEVELOPS FAVORING INCLUSION OF EXCHANGE RATE INSURANCE, U.S. DEL MAY AGREE, NOTING THAT U.S. CONSIDERS THAT THIS CONCLUDES SUBMISSION OF NEW AGENDA ITEMS PER CONSENSUS REACHED AT LAST MEETING. WE

WOULD PREFER TO COMPLETE CONSIDERATION OF INFLATION INSURANCE, INCLUDING APPROVAL OF AN INTERIM REPORT TO THE COUNCIL, BEFORE MOVING ON TO OTHER ITEMS. GIVEN, HOWEVER, EC "INSISTENCE" THAT ALL RELATED MATTERS BE DISCUSSED IN PARALLEL, WE ARE WILLING TO MOVE DIRECTLY TO DISCUSSION OF OTHER ITEMS WITHOUT AN INTERIM REPORT. MISSION SHOULD, AS APPROPRIATE, EXPLORE WITH UNDECIDED DELEGATIONS (REF. C) THEIR POSITION ON ISSUE ON INCLUDING EXCHANGE RATE INSURANCE ON AGENDA EXPLAINING U.S. RESER-

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VATIONS ON RELEVANCE OF THESE PROGRAMS TO WP MANDATE.

6. U.S. POSITION RE GATT LEGALITY REMAINS AS CONTAINED IN REF. A. U.S. DEL SHOULD DRAW ON THIS FOR POINTS TO USE IN WP DISCUSSION, ESPECIALLY REGARDING DUAL PRICING AND GOVERNMENT SUBSIDIZATION ASPECTS. WE NOTE THAT THE CANADIAN AND SWEDISH DELS AT MARCH 14-15 MEETING REPEATED THEIR POSITION THAT SCHEMES ARE ILLEGAL UNDER ARTICLE XVI. MISSION SHOULD, AS APPROPRIATE, CONTACT THESE AND OTHER DELEGATIONS WHICH HAVE STATED THAT SCHEMES VIOLATE ARTICLE XVI TO LINE UP SUPPORT FOR OUR SUBSTANTIVE ARGUMENTS. WHILE WE DO NOT EXPECT WP AT THIS MEETING TO REACH AGREEMENT THAT SCHEMES VIOLATE GATT RULES, OUR GOAL OF MAINTAINING PRESSURE ON COUNTRIES WITH THESE SCHEMES WOULD BE WELL SERVED BY AS BROAD SUPPORT OF OUR POSITION ON GATT LEGALITY AS POSSIBLE. OUR POSITION REMAINS THAT THESE SCHEMES ARE SUBSIDIZED FROM GENERAL BUDGET REVENUES. THE FRENCH AND ITALIAN STATEMENTS AT THE LAST WP CONFIRM THIS AS DO THE DATA ON FRENCH (REF. E.) AND FINNISH APPROPRIATIONS. U.S. DEL SHOULD CONTINUE TO MAKE THIS POINT.

IN ADDITION, IN VIEW OF THE CLAIMS OF SOME DEFENDING COUNTRIES THAT SCHEMES ARE SELF-SUSTAINING OVER THE LONG TERM (REF. F), IT MIGHT ALSO BE PRODUCTIVE TO ATTEMPT TO PROVE THAT INDIVIDUAL TRANSACTIONS ARE NEVERTHELESS SUBSIDIZED BY PURSUING THE LINE REFLECTED IN THE QUESTION IN REF. D PARA 7.A.

IN THIS CONNECTION, A POINT SHOULD BE MADE THAT INFORMATION SUCH AS THAT REQUESTED IN REF. D-PARA 8 (FRANCE) A AND B WOULD NOT REVEAL BUSINESS CONFIDENTIAL INFORMATION

AS FRENCH HAVE ARGUED BUT WOULD BE HELPFUL TO THE EVALUATION OF THE SCHEMES BASED ON AVERAGES. 'E NOTE RECENT CHANGES TO FRENCH PROGRAM HAVE BEEN ANNOUNCED. U.S. DEL SHOULD ASK FRENCH REP TO EXPLAIN THESE (REF. E) AND WHETHER FURTHER CHANGES ARE PLANNED.  
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7. REF. A ALSO CONTAINS GENERAL ARGUMENTS REGARDING TRADE

DISTORTION ASPECTS OF THESE SCHEMES. IT IS IMPOSSIBLE TO QUANTIFY THE EFFECTS OF EII SCHEMES AND THE FRENCH MAY WELL REPEAT THEIR ARGUMENT THAT OUR ASSERTIONS HAVE NOT BEEN PROVEN. IF SO, U.S. DEL SHOULD REPEAT GENERAL ARGUMENTS REGARDING ABILITY OF BENEFICIARIES TO SUBMIT BIDS LOWER THAN IF THE INSURANCE WAS NOT AVAILABLE AND TO AGREE TO FIXED PRICE CONTRACTS WHERE EXPORTERS IN OTHER NATIONS CAN NOT DO SO BECAUSE OF NEED TO CONSIDER COST INCREASES OVER CONTRACT PERIOD. U.S. DEL SHOULD REJECT ANY ARGUMENT THAT SCHEMES MERELY OFFSET PROGRAMS SUCH AS DISC AND ARE THEREFORE "ANTI-DISTORTIVE." (REF. B.)

8. WE EXPECT THAT THE WORKING PARTY WILL HAVE FURTHER MEETINGS AND U.S. DEL SHOULD MAKE CERTAIN THAT EII REMAINS ON THE AGENDA. IN THE EVENT, HOWEVER, THAT THE WP SHOULD CONCLUDE DISCUSSION OF EII AND A REPORT IS TO BE PREPARED AND IT BECOMES APPARENT THAT THE REPORT OF THE WORKING PARTY WOULD NOT REFLECT STRONG SUPPORT FOR THE U.S. POSITION, THE U.S. DELEGATE SHOULD SUM UP FOR THE RECORD U.S. VIEWS ON THE SCHEMES AND INDICATE THAT THE U.S. RESERVES ITS RIGHT TO PURSUE THIS MATTER FURTHER EITHER IN THE GATT OR BY OTHER AVAILABLE MEANS. CHRISTOPHER

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## Message Attributes

**Automatic Decaptioning:** X  
**Capture Date:** 01-Jan-1994 12:00:00 am  
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**Disposition Approved on Date:**  
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